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COÖPERATIVE PIONEERING AND GUARANTEEING IN THE FOREIGN TRADE

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At last the great forces hitherto largely employed in developing and providing the greatest "home market" in the world are striving toward wider fields for conquest. American commerce also comes soliciting a "place in the sun." Oversea trade is no longer to be regarded with hasty complaisance—freely received in times of surplus production or periods of depression, to be forgotten when domestic demand again stretches out eager hands. Delayed, but none the less deep-seated, has come the firm conviction that foreign markets can be won if they are treated as primary markets, whose requirements should receive as much attention and study as our own, instead of regarding them as the outlet for our overflow or graveyard of our own manufacturing mistakes.

Thus, for the first time in the history of the United States, the fact that great expansion of trade with foreign countries is of fundamental importance is clearly apparent. United States as a nation not only actually desires and needs a larger foreign trade, but seems willing to pay the price for it in hard study, planning and fundamental work. But this desire and need come at a time of most extraordinary conditions all over the world, and, therefore, can be met only by new and radical methods. If we cannot find and use such methods, we shall fail eventually, and although we may make temporarily an apparent success, the result will be great losses for all but the exceptional few.

New machinery for making foreign trade must be found and tested, and this machinery must be superior to any employed by our competitors of other countries. Happily the business men of this country are renowned for their ability to scrap out-grown machinery and to invent new.

On previous occasions we have made spasmodic efforts to cap-

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ture foreign trade. In each instance, however, the flutter has died away when the gale of boisterous publicity has subsided. Our prospective customers, especially in the Latin American countries, have been inclined to view these forays as a scramble after the agile dollar, and have cast their lot with the slow shilling and equally slow and perhaps surer mark. Old Europe, wise with the seasoning of centuries of commercial experience, has smiled at our boast over "favorable trade balances," taken our shipments of raw materials, and grown richer in returning these same raw materials in the form of manufactured goods.

Europe has always been painfully solicitous about encouraging American exports—of foodstuffs and raw materials. She can view with undisturbed complacency consecutive decades of "favorable trade balances" furnished at the expense of impoverished soil, depleted mines, and denuded forests.

On account of the great world war that is going on this buying power is seriously threatened not only in the warring nations but also in the neutral nations. Even before the war began, in every important country of the world, it had been reduced by the high cost of living, which had been mounting so fast as to become a serious burden. This high cost of living will inevitably be largely increased by the cost of the war; for even if that cost is capitalized, the interest on it will add very heavily to the burdens of every citizen in every country involved. And if the settlement of this war is such that Europe remains an armed camp and every nation must strain itself to the uttermost to keep its armaments effective as compared with those of rival countries or enemies, there will be added to that increased high cost of living the enormous additional cost of the increasing armaments.

This will curtail the buying power of all warring nations and may limit the purchases of the masses practically to the necessities of life for many years to come. Countries suffering from such conditions can offer but poor markets for trade expansion, however good our planning for such extension may be. More than this, their curtailment of buying power must react so strongly upon the other countries of the world, upon South America and Asia, for example, as to make these other countries also poorer fields for our trade expansion than they would otherwise be.

It becomes apparent at once, then, that great exertion and great expense for foreign trade expansion must be accompanied by at least equal exertion to make the terms of settlement of the present war such that Europe will not remain an armed camp.

I will say, right here, that I am not attempting in this article to pose as an organizer of peace compacts, for I have never in my life belonged to a peace organization. I am, rather, presenting my views as a business man, presenting what I believe to be the fundamentals necessary to permanent trade expansion.

As responsible men we should ask ourselves: What can we men do, what can the United States do, to help bring about the right terms of settlement of the war? The question is of course difficult to answer. The great nations of the world are locked in deadly struggle, and this struggle is so fierce that at the present time there seems to be no opportunity for any outside interference, however well intended; moreover, there is apparently no chance of peace being made on any terms in the near future. From my study on the spot I am convinced that any fighting government that attempted to make peace now, on any terms conceivably acceptable to their enemies, would perish under the wrath of their citizenship, who would fear that the great sacrifices they had made would not result in the indemnities and other advantages that they had hoped for.

The warring nations, then, will not propose terms of peace until either exhaustion or victory comes. The neutral countries, although they are seriously affected and suffer seriously from the effects of the war, can have little hope that any proposals they may make will be acceptable now.

Tentative attempts in this direction have failed. The danger is, therefore, that peace will eventually be made by the warring nations alone and through the same diplomats who were not able to prevent this devastating war. If that happens it is almost inevitable that the terms of peace will carry the seeds of the next war, leave Europe an armed camp, and will keep the whole world for years to come so impoverished that few if any countries will be profitable fields for trade expansion.

Fortunately, however, in the United States all the warring nations are represented by great numbers of men who were either born in one of those nations or are the immediate descendants of such

people. If, therefore, the business men make it their business to bring about a nation-wide discussion of the terms of settlement and the principles underlying more permanent peace, I believe that we can get results. At first there may be confusion, errors in the discussion, and naturally racial prejudice. But gradually a better understanding of the fundamental principles, rights, and possibilities involved will come and the discussion will attract the attention of all the parties to the strife in Europe. They will in turn be tempted to communicate, through their compatriots in this country, something of their own attitude toward the settlement of their differences. We would find, I firmly believe, that the ideas in the minds of the German people, of the French people, of the English people, of the Austrian people, and the others would filter through to their representative groups in this country. More than this, their governments, I believe, would in this way use this country as a laboratory in which to test the probable reaction of their own and their enemies' countries as to different terms of settlement, a thing which they regard as impossible in the warring countries at present. From all this there will grow up in the minds of people in this country and in neutral countries a comprehension as to what terms of settlement are fundamental for a lasting peace, and I believe that comprehension will also filter through to the masses in the warring nations. When the terms of peace come to be agreed upon, this knowledge and the will for more permanent peace that it produces, will help to make a settlement that will not only be the basis for a greater and more lasting prosperity and happiness for the inhabitants of the warring countries, but will also have a large part in making the whole world a better field for trade expansion.

May I add a word of warning? If the United States is to have any direct influence finally in the terms of settlement of the war, such influences will depend largely on the confidence the warring nations have in our fairness and justice. This will be tested most largely by whether we play the game fairly during this war. If the warring nations come to believe that we are selfishly exploiting the war, we shall have little influence with them, and, as I have said, a bad settlement will leave Europe an armed camp and among other great evils diminish the buying power of the world. We must play the game straight and not hit below the belt—not try to take

unfair advantage of the present export trade or the helplessness of any of the fighting nations.

But granted that the war is finally over and the terms of settlement have been such as will at once or in time make all the warring nations better fields for trade expansion, yet there are other fundamental factors that must be rightly dealt with before we can obtain any important trade expansion.

It is by scientific study of such fundamentals, by industrial and vocational education, hard work and very thorough organization of national and international business machinery that the Germans have won for themselves one of the foremost places in the world of commerce. The other great countries also have done similar work in varying degrees. These qualities will not be extinguished by the war. On the contrary the necessity of rehabilitation after the war will make them redouble their effort for foreign trade.

While, therefore, we may be able to greatly increase our exports during the next two years, the outlook is that after the warring nations have ended the war and reestablished their producing organizations, the competition for the world's markets will be fiercer than it has ever been before in the world's history. Moreover, some of the warring nations, if not all, will be obliged to get this trade at whatever price they can, and will undersell us. Even then they will be able to make profits because labor will be forced to accept lower wages and employers a lower scale of living than their competitors.

Affording a clear relief against the confusing blur created by our feverish outbursts of foreign trade activity stand the notable successes of American industry. But in order to extend the scope of this new development, and also make it a lasting one, there are, however, several new methods which should be carefully studied. It must be a development backed by well organized sale departments, offering merchandise of an approved and established standard as articles possessing not only the stamp of Yankee ingenuity, but also carrying a label of guarantee with all the dignity that the United States can lend to such an article. And to this special piece of machinery I choose to call attention under the new term of the "quality stamp."

This quality stamp would give us a better chance to win our

share of the world's markets against the very able English, German and French competitors, who now largely possess them. I suggest that each national trade organization create and own a copyrighted quality stamp. This stamp attached to the goods should guarantee to the consumers that they are of the standard quality, fixed and described by tags or other means on the goods they are about to buy. Exporters desiring to use this stamp would have to agree to observe the standards and conditions of its use, and also give a bond. For any material violation of the conditions, an offender would be subject to a forfeit equal to his bond and probably also lose the privilege of the stamp. Since the stamp will be a valuable selling aid, no exporter will be willing to put in jeopardy his right to use it. A brief illustration of this influence of reliability on trade, as per this quality stamp, is shown in our failure as a cheese exporter and Canada's success—because the Canadian government absolutely guarantees the quality of Canadian cheese exports. If the above-mentioned methods are followed out, I firmly believe that we, as a nation, will be able to get the same thing in a more efficient way.

We must, however, consider the needs and wishes of oversea customers as deserving of quite as much attention as domestic requirements; thus we will have blazed the trail into every country on the globe. This pioneer task has been performed chiefly by the leaders in American enterprise—big business, if you will—but the path worn by these exporters of steel, oil and tobacco products, farm implements, sewing machines, cash registers, and typewriters can be followed by thousands of small manufactures, and the rewards will be contingent only on their attitude and methods.

We are no longer almost exclusively an agricultural people. In 1880 the products of the soil formed 84 per cent of our total exports, and in 1913 the proportion had dropped to 46 per cent. In 1880 manufactures constituted 15 per cent of our export, and in 1913 this proportion had increased to 49 per cent. In spite of the fact that more than 60 per cent of the world's acreage of corn is located within our boundaries, we exported not more than 8,000,000 bushels of this cereal from the beginning of October, 1913, to the end of February, 1914. While this miracle of the season's wheat crop has again furnished occasion for agricultural optimism, our farming methods will have to undergo a marked improvement if our supply

of bread-stuffs is to be more than adequate for domestic consumption.

In addition to the gradual change from an agricultural to an industrial basis it is necessary to consider certain other features, less fundamental, perhaps, but equally potent in their bearing on the character of our commerce. The new tariff law has been accepted as placing us on a competitive basis in the world's markets with other manufacturing countries. In order to maintain our place with other countries in those markets, we must necessarily equip ourselves. Our surrender of neutral ground to the European competitors would enable them to reap the advantage of larger profits, thus giving strength for the campaign to capture American trade on a price basis which domestic manufacturers could not meet.

The opening of the Panama canal gives new highways of commerce of the western Hemisphere. It will be seen at a glance that the nation which is best prepared will be the one to reap this new advantage.

While certain hopes may have arisen with regard to the benefits the federal reserve law will directly confer in the promotion of foreign trade which are as yet unfulfilled, it is at least conceded that it can help to carry out the declared purpose of President Wilson, that trade shall be free. The privilege granted to reserve banks for the establishment of foreign agencies paves the way for the creation of direct banking relations with other countries, the lack of which has always been regarded as a restraint upon oversea commerce. The following factors, therefore, may be regarded as furnishing the underlying basis for our effort to obtain an increased share of foreign trade. The changing of industrial conditions, a tariff forcing us into more direct manufacturing competition with older countries, the benefits involved in the completion of the canal, and new advantages that have been created by the passage of the new currency law. The time is ripe. Then as if to give dramatic emphasis to the hour that has struck, paralysis attendant upon war benumbs the energies of the old world and for a time we are given greater access to neutral markets. Accident or otherwise, our opportunity has arisen, an opportunity such as never before existed. Are we equal to it?

Foreign students of our commercial life take the view that we are never likely to succeed permanently as important factors in

world commerce, principally because it is not a matter of life and death with us. According to the last documental census, our manufactured products in 1909 reached the enormous total of \$20,672,052,000. Estimates by the Bureau of Manufactures based on this showing placed our total manufactured products last year at \$25,000,000,000. This is more than the total of the manufactured products of England, Germany, France, Belgium and Holland, combined. Our foreign exports of manufactures, therefore, represent only 4.7 per cent of our total output of such products. England, Germany, France, Belgium and Holland shipped abroad a total of manufactured goods equal to 60 per cent of their production. The record per capita of exports from the United States—reached in 1913—was about \$25. Those of Holland were \$210; Belgium \$100; Great Britain \$53; Germany \$33; France \$32. The assumption that America will not obtain an increased proportion of foreign trade, because it is demonstrably not vital to its commercial existence, can hardly be supported. Proper appreciation of the American temperament suggests that refuge in the last ditch is not essential to arouse a fighting spirit. Adequate incentives undoubtedly will be found in the realization that exports aid in stabilizing home industry, that foreign business may be profitable without a profit if it reduces costs in our country; and that the expansion of our oversea trade is necessary as a defensive as well as an offensive measure. Our manufactures must maintain a great volume of production in order to meet success on the narrowed margin of profits brought about by increased competition with foreign manufacturers. Moreover, our recurring periods of depression, if not prevented, would at least undergo some mitigation, as a result of commercial expansion because our foreign trade would take up some of the slack attendant upon an over rapid advance.

No extraordinary success in world commerce has been achieved by any nation without a certain command of the machinery by which it is conducted—ocean transportation, banking, exchange, and insurance facilities. America may accomplish this miracle without the aid of this equipment, but reliance upon fortuitous circumstances in lieu of approved methods is an invitation to disappointment. The manufacturer who makes the goods and the merchant who sells them undoubtedly come first in the list of essential factors. A general discussion of our bid for an increased share

in the oversea trade, therefore, entails the problems of how the products are to be manufactured, sold, financed and transported.

Although there are notable exceptions where individual concerns have created important foreign markets for their products, experience has taught that all foreign trade, in really worth while quantities and permanent, must be obtained by the coöperation of business men; and this is based on the fact that the markets to be conquered must be thoroughly studied. Moreover, they must be continuously watched and re-studied if the trade is to be retained. Such study and investigation is too costly for all but a few exceptionally large concerns. Personally I believe it is not the best method for even such firms to work alone, because a market laboriously earned may be ruined by commercial misdeeds of irresponsible or fraudulent home competitors or even by the ignorance or carelessness of honest firms.

Those manufacturers who have won success in foreign fields, especially in the less developed countries, have given first consideration to the fact that the foreign market must be treated as a primary market. This is a method followed by Germany, Great Britain, Holland, Belgium, and to certain extent by France. Therefore, it seems trite to say that the articles to be sold must be something that the foreign customer really wants. This truism, however, has never been fully appreciated by the American manufacturer. With a few notable exceptions, there have been no systematic efforts to meet the requirements of foreign buyers. In times of depression, the threatened congestion has aroused an impatient eagerness to sell, not what the foreign market needs, but what the domestic manufacturer has on hand. This policy has been largely responsible for the complaint of rejected shipments and unpaid accounts which has loomed like a scarecrow in the fertile field of foreign trade.

An important place also must be given to the attitude which the government of the exporting country maintains toward its citizens who are engaged in foreign trade. Thanks to the increasing efficiency of our consular service, and the helpful interest manifested by the department of commerce, we have another potential source of help to prevent the American manufacturer from rushing blindly into unprofitable errors. Specific reports on the demand for certain products, surrounding market conditions, tariff restrictions and credits are available from this source upon inquiry. The bureau

of foreign and domestic commerce of the department of commerce has been constituted the ganglion of our system of trade development. Recently, through the assignment of trained specialists known as "commercial attachés," to the task of studying foreign manufacturing and business methods, a step has been taken to grant to our commerce a place in diplomacy which will in due time rival that which previously has been monopolized by our international political relations.

In recent years diplomacy has been turning more and more to the furtherance of foreign trade. This function, previously largely confined to negotiation of commercial treaties, now works for government contracts, concessions, and participation in loans, the safeguarding of patent rights, and the opposition to laws inimical to the extension of trade.

Germany presents the most striking example of results achieved by the coöperation of government with business. Through the unremitting vigilance of its foreign office and the enactment of favorable legislation, German commerce has been given a stimulus and vigor which the energy of its manufacturers and merchants alone could not have imparted. The government policy even goes to the extent of forcing unusual credits from banks to exporters of granting freight reductions on railroad or steamship lines, in order that foreign competition may be met. And yet once more German methods may be cited with profit. The export business of thousands of small German manufacturers is handled almost entirely by large selling units, which have been found to perform the merchandising function more efficiently and economically than would be possible by the individual of moderate resources. It is necessary to employ men of high character, thorough business training and equipped with a knowledge of the language and social and business customs of the country to which they are assigned. Strong selling organizations under American management, equipped to give adequate service to the exporting manufacturer and the purchaser, and to furnish the needed capital for extending credit, would solve the problem of the disposal of our product and remove from that branch of commerce many of the traditional difficulties which have hitherto stood in the path of our pioneers seeking foreign trade.

The mercantile intelligence of Great Britain, and later of Germany, has been alive to the importance of developing the resources

of the countries in which attempts have been made to expand trade. Funds advanced for the building of railways, tram lines, irrigation works and public improvements involve a preference in the furnishing of equipment and supplies and in numerous cases a voice in the administration of the new projects. It has become the established practice in loan contracts, made by the leading European countries with less developed countries, to stipulate that materials shall be furnished by manufactures of the country lending money. While we have been dazzled by the shibboleth—"trade follows the flag"—the practical old world merchant has built up his solid success on the principle that "trade follows the loan." The magnitude of European investment in the new countries is almost as difficult to grasp as astronomical dimensions. Sir George Paish in the last annual of the *Statist* estimated that upwards of \$40,000,000,000 of the capital had been supplied to the less developed countries by the five lending nations of the world, Great Britain, Germany, France, Belgium, and Holland. The investment of this vast sum has enriched both borrowers and lenders. The aggregate value of the imports of the five lending nations two generations ago was less than \$1,250,000,000. Largely owing to the impetus given to industry by the advance of capital for development these same five countries are now buying \$10,000,000,000 worth of goods annually from other countries. On the basis of the London stock exchange listings, British investments in Latin America are estimated at \$5,800,000,000, yielding an annual return of more than \$200,000,000. The purchases of the United Kingdom from Latin America in 1912 were only slightly in excess of \$300,000,000 and the investment returns paid nearly two-thirds of the bill.

Investing power is a national asset. It can be utilized when other advantages, such as cheap labor, cheap raw material and improved machinery have been reduced to a common factor and cancelled. We are a nation of borrowers. So was Germany when she started to build up her foreign trade. She took advantage of her high credit to borrow at low rates, in order to have funds available for her customers at higher rates. The big returns on these advances rest on the principle that the obligation of the borrower is not confined merely to the repayment of the debt.

I propose one other important new piece of machinery which will help us greatly in our quest for trade expansion—the insurance

of contracts. By this I mean that trade organizations, or insurance companies created by them, shall insure the contracts for delivery of goods that they sell. What I mean is this: Every man who buys a bill of goods from the United States should get with the purchase an insurance policy which will insure his getting, within the agreed upon time, the quantity and quality up to sample of goods he has ordered, or else an agreed upon indemnity which will make up for the loss which the failure to fulfill the contract may have occasioned.

Connected with this should be a system of arbitrating on the spot any differences that may arise between buyer and seller. As the insurance company would have the right of recourse to the producer, the cost of such insurance would be comparatively trifling and could be paid without any hardship.

On the subject of adapting American products to foreign ideas, United States Consul General at Large, J. E. Dunning, has this to say:

The requisite for permanent foreign business is a genuine superiority in the goods themselves—a superiority so obvious that it will always stand above mere price, terms and distances of deliveries. Cheapness never has been, and never need be, the distinctive feature of American export goods. High quality of the maximum of service are the best assets for American exporters and it is on these features that they have made their way where they have succeeded and can continue to do so. This is equally true of automobiles, of typewriters, office supplies, machine tools, or novelties. Europeans can compete with Americans in cheapness, but no one has equalled us, or will be likely to do so, in factory refinements.

The need for American ships to transport American products has not yet become a commercial ideal with us. Until that time comes our goods will continue to be taxed with higher freight rates than Europe pays. The tonnage assembles where commerce is most active and commerce above all things has a habit of moving along the lines of least resistance.

If the American genius for organization, already demonstrated in the domestic field, is really about to be concentrated on the extension of oversea trade, many existing obstacles will be removed. The courage of our industrial leaders and the common sense of the people at large warrant such a prophecy. Sacrifices must be made, but these have no terrors. Notwithstanding our limited experiences, we have already learned that, in the game of world commerce, psychology plays a part almost equal to that of economics.